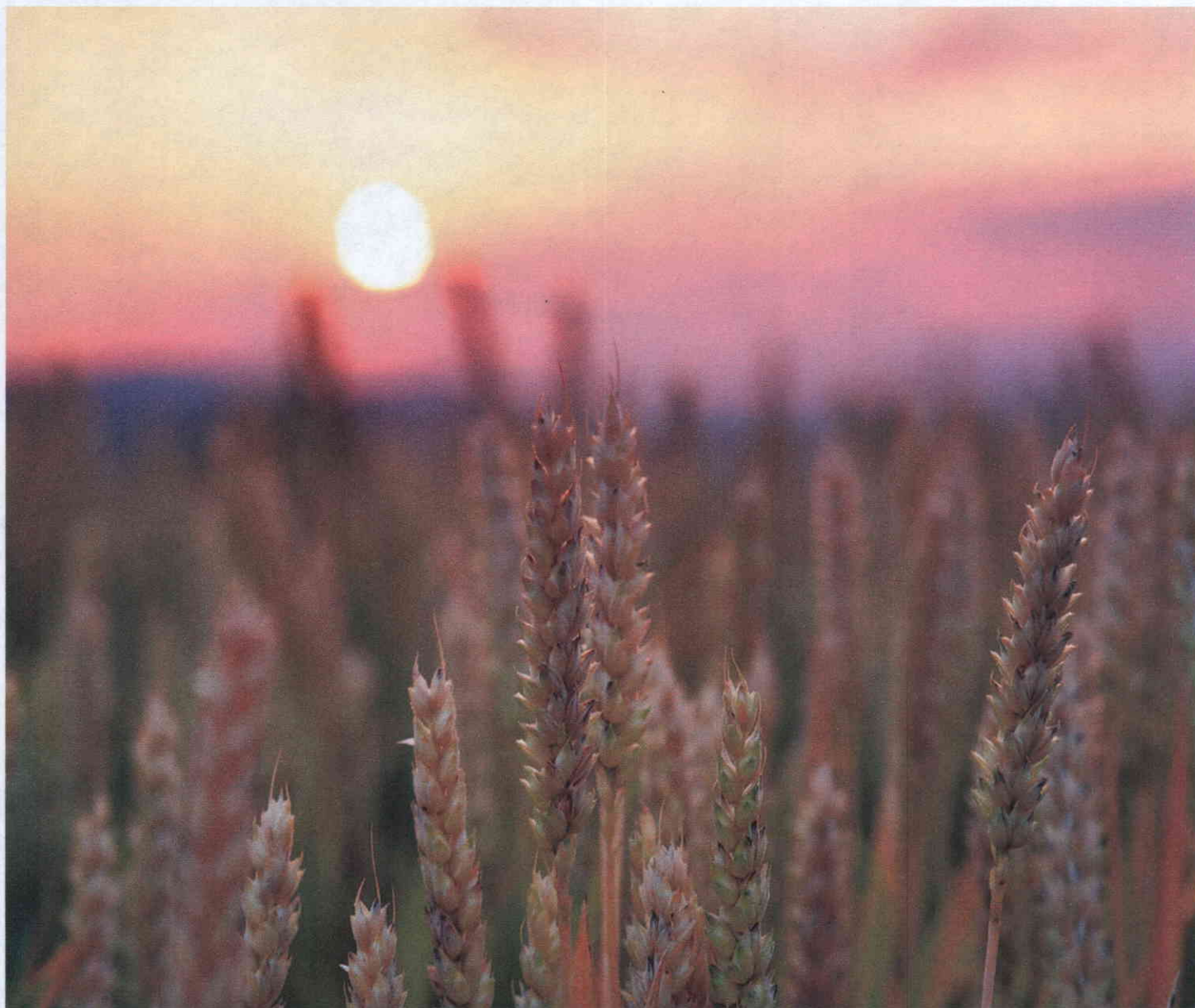


South Dakota Office of School and Public Lands



July 1, 2008 - June 30, 2009
Annual Report



School and Public Lands

Jarrold Johnson, State Land Commissioner

December 1, 2009

The Honorable M. Michael Rounds
Governor of South Dakota
500 East Capitol Avenue
Pierre SD 57501

Dear Governor Rounds:

Pursuant to SDCL §5-1-14, please accept this report covering the transactions, funds, and status of the Office of School and Public Lands for the fiscal year ended June 30, 2009.

A few highlights from the year include:

- More than 160,000 acres of grazing and agricultural property located in 34 counties were leased at public auction. Many tracts were competitively bid, thus raising our surface revenue for the next five years.
- Despite an increasingly unstable economic environment, we were able to return more than \$13 million to the state's public schools, universities, and endowed institutions.
- Though global oil and gas prices dropped in FY09, we saw a significant amount of interest in state-owned oil, gas and mineral reserves. Additionally, royalty payments on the state's producing wells remained steady to help generate more than \$4.6 million within our minerals division.

Please feel free to contact our office with any questions or requests for additional information.

Respectfully submitted,

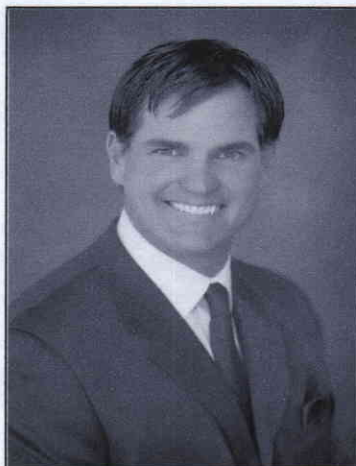
Jarrold R. Johnson
Commissioner of School and Public Lands

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Staff



COMMISSIONER
Jarrod Johnson



DEPUTY COMMISSIONER
Jennifer Toscana



OIL, GAS & MINERAL AGENT
Mary Jo Joens



SURFACE AGENT
Mike Cornelison



INVESTMENT OFFICER
Renee Knapp



OFFICE MANAGER
Dena McCaskell



ADMINISTRATIVE SECRETARY
Claudia Cepak

Mission Statement & Purpose

To ensure efficient and superior management of school and endowment lands and trust funds owned and administered by the State of South Dakota.

SDCL 5-1-7. "The commissioner of school and public lands shall have the direction, management, and control of all lands heretofore granted or which may hereafter be granted to this state by the United States, or otherwise acquired, and of all the plats and records pertaining to the title thereto and the disposition thereof."

Office History

When South Dakota became a state in 1889, the Federal Government granted the state over 3.5 million acres of land. Township sections 16 and 36 were reserved for school and public purposes; these are known as Common School Lands. If the sections were already settled, the government provided replacement property known as indemnity lands.

Additional property was also provided to be used however the state wished. The South Dakota Constitution divided these lands among what would become the state's universities, the School for the Visually Handicapped, the School for the Deaf, State Training School, and the Developmental Center in Redfield. To manage these lands and the money generated, the Constitution established the Office of School & Public Lands.

According to the Constitution, common school and indemnity lands were either to be sold or leased and the proceeds deposited in a permanent trust fund for education. The principal could be increased, but never diminished. Interest from the fund was to be used for funding education.

Each year the office returns approximately \$10 million to school districts and endowed institutions. The money is generated from grazing, mineral, oil and gas leases, interest from the Permanent Fund, and interest earned on land and sales contracts.

Leased Surface Acres By County

AURORA	1,163.010
BEADLE	5.200
BENNETT	12,562.120
BROWN	3,973.550
BRULE	19.150
BUTTE	72,564.177
CAMPBELL	8,549.678
CLARK	421.210
CORSON	22,842.910
CUSTER	9,178.261
DAY	595.330
DEWEY	6,052.680
EDMUNDS	13,212.570
FALL RIVER	19,098.200
FAULK	12,365.156
GREGORY	40.000
HAAKON	12,602.283
HAND	8,475.320
HARDING	253,169.907
HUGHES	397.220
HYDE	22,182.590
JACKSON	4,187.73
JERAULD	440.000
JONES	4,080.000
LINCOLN	320.00
LYMAN	8,649.610
MARSHALL	3,250.242
MCPHERSON	21,761.840
MEADE	44,190.820
MELLETTE	11,513.190
MINNEHAHA	526.300
PERKINS	72,029.430
PENNINGTON	27,451.410
POTTER	22,025.440
SPINK	2,448.660
STANLEY	8,274.124
SULLY	14,476.666
TRIPP	5,315.300
UNION	297.10
WALWORTH	13,411.233
ZIEBACH	<u>13,809.138</u>

TOTAL ACRES:

757,928.755

Surface Division

Grazing and agricultural (farming) leases are offered with five-year terms. At the end of five years, the lessee can pursue one five-year extension of the lease. In 2009, the Office of School & Public Lands managed and maintained 2,880 surface leases on more than 750,000 acres.

For expiring and cancelled leases, annual surface lease auctions are held in March and early April of each year. These public auctions are held on a county-by-county basis at each county courthouse. The starting bid for each lease is set annually by the commissioner, and based on a formula established forth in state law.

Surface lessees are responsible for paying the annual property taxes due for the property that he or she leases. Lessees have the ability to construct and own improvements on the property and share the cost of controlling noxious weeds and pests with the Office of School and Public Lands.



Surface Revenue By Land Class

COMMON SCHOOL	\$3,663,816.72
SOUTH DAKOTA STATE UNIVERSITY	\$344,323.85
UNIVERSITY OF SOUTH DAKOTA	\$98,976.49
PUBLIC BUILDINGS	\$44,475.96
SDSU EXPERIMENTAL STATION	\$22,849.65
DOC JUVENILE PROGRAMS	\$27,699.35
SCHOOL FOR THE DEAF	\$33,763.43
SCHOOL FOR THE VISUALLY IMPAIRED	\$54,483.81
REDFIELD HOSPITAL AND SCHOOL	\$74,216.60
SCHOOL OF MINES	\$54,633.00
DAKOTA STATE UNIVERSITY	\$157,188.83
SPRINGFIELD	\$74,832.96
NORTHERN STATE UNIVERSITY	\$82,588.22
REDFIELD SDDC ACCT	\$1,377.20
CORRECTIONS/PLANKINTON	\$4,000.00
DOC (WEST FARM BUDGET)	<u>\$67,626.70</u>

TOTAL

\$4,806,852.77



Weed & Pest Control

As with any owners of grazing and farm land, the proper management and control of noxious weeds and pests is an important issue for the Office of School & Public Lands. Each year, School & Public Lands is allocated a percentage of pesticide registration fees collected by the South Dakota Department of Agriculture. These funds, known as the School & Public Lands Weed and Pest Fund, are used to pay for travel, contractual labor and supplies associated with the control of weeds and pests on state trust lands.

Generally, the surface lessee of a tract of School & Public Land is responsible for paying for the application of an appropriate herbicide or pesticide, while the cost of the chemical is paid from the School & Public Lands Weed and Pest Fund. School and Public Lands has also partnered with various regional and county weed boards to assist with the comprehensive management of widespread noxious weeds.

From July of 2008 through June of 2009, School & Public Lands spent a total of \$161,489.00 on efforts to control and manage noxious weeds and pests, including Canada Thistle, Leafy Spurge, Salt Cedar and prairie dogs.



Leafy Spurge



Canada Thistle

Mineral Division

The Office of School & Public Lands holds mineral lease auctions in the spring, summer and fall of each year. Individuals and companies submit nominations for tracts of mineral holdings that they are interested in leasing. The nominated tracts are then offered at public auction. Auction dates and nomination deadlines are posted on the website at www.sdpubliclands.com.

Mineral leases are issued for a maximum of fifteen years; oil and gas leases are issued for five year terms. All leases can be held indefinitely as long as there is production on the lease.



Oil & Gas Boom Benefits State Education Office of School & Public Lands leases more than 60,000 acres for development in 2008

PIERRE, SD – The Office of School and Public Lands completed its final mineral lease auction for 2008 on Tuesday, October 7 at the State Capitol. A total of 60,485 acres of School & Public Lands were nominated and leased in 2008, generating revenue of more than \$2 million for South Dakota public schools and endowed institutions.

In recent years, the Office of School and Public Lands has seen a significant increase in leasing and development of state-owned oil, gas, and mineral properties. Oil, gas, and mineral auctions held in 2008 were the most competitive in the state's recorded history. At the auction held earlier this month, a single 315-acre tract located in Harding County was leased at a rate of \$610 per acre by Luff Exploration of Denver, Colorado.

"It's really a win-win situation for the state," said Commissioner of School & Public Lands Jarrod Johnson, "South Dakota gets to play an active role in increasing the nation's domestic energy sources and state education receives the financial benefits."

With only seven employees, the Office of School and Public Lands stands as the smallest agency in all of state government. Commissioner Johnson and his staff are responsible for the management of South Dakota's school and endowment lands, which encompass more than 750,000 acres of surface ground and 5.2 million acres of mineral rights.

Mineral Revenue

FY 09 MINERAL REVENUE

Mineral, Oil & Gas Lease Rentals	\$ 211,459.00
Oil & Gas Royalty	\$2,717,443.76
Mineral, Oil & Gas Bonus	\$1,716,258.00
Oil & Gas Miscellaneous	\$ 1,918.25
Interest	<u>\$ 25,362.34</u>
TOTAL	\$4,672,441.35



Leased Mineral Acres

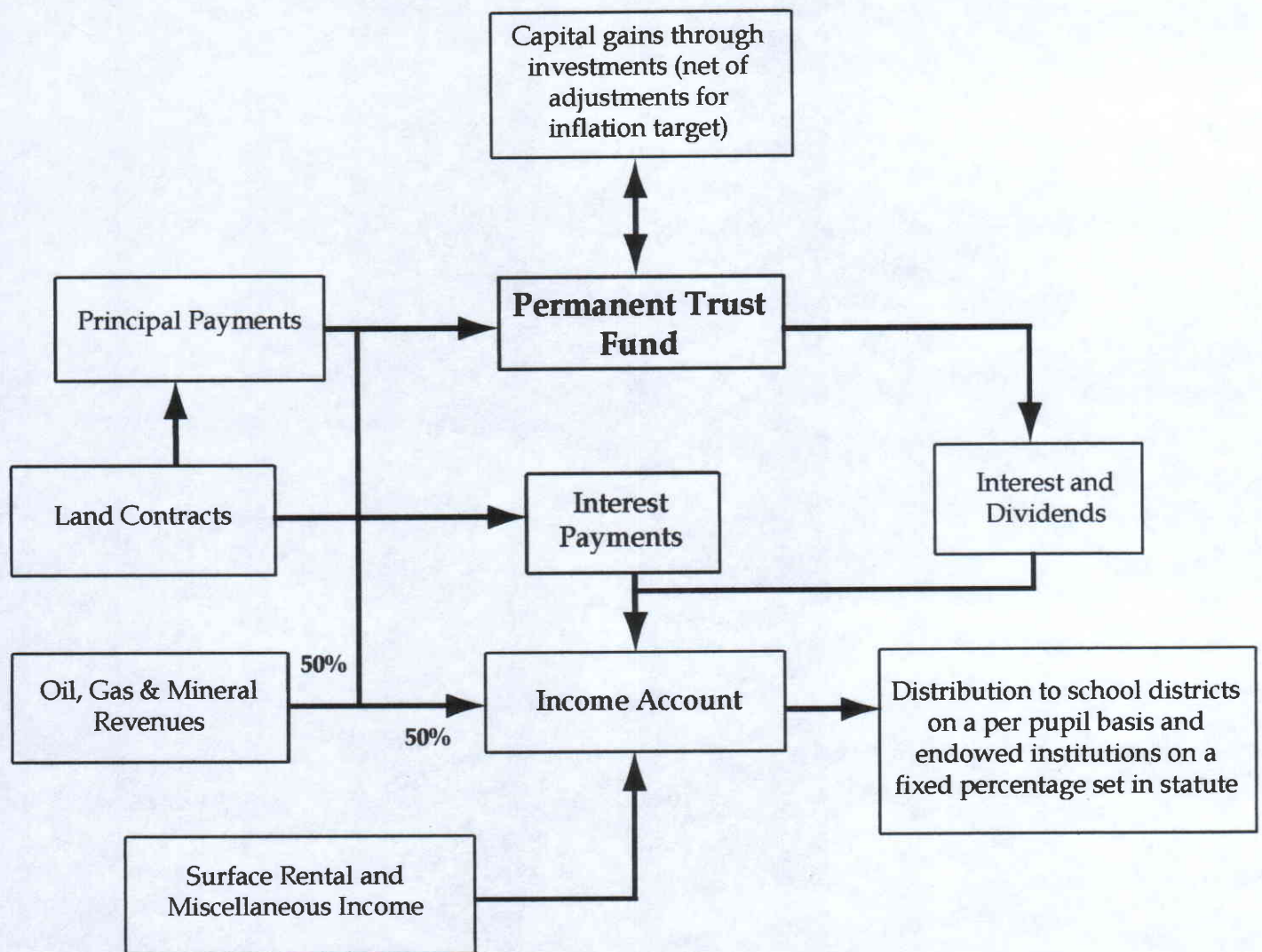
LEASED MINERAL ACRES BY COUNTY

<u>County</u>	<u>Acres</u>
Butte	28,253.23
Custer	1,651.19
Fall River	6,915.41
Harding	196,019.17
Meade	5,760.00
Stanley	<u>473.88</u>

TOTAL ACRES 239,072.88



School & Public Lands Income Flow Chart



Education: Permanent Trust Fund

At statehood, the Permanent Trust Fund was established with the intent of providing a continuous source of revenue for public schools, universities and endowed institutions. Proceeds from the sale of land are to be deposited in the fund, which can be added to but never diminished. The interest revenue generated by the fund is apportioned to school districts, universities and endowed institutions. Prior to the year 2001, the growth of the fund was based on land sales, mineral revenue and capital gains. In the 2000 general election, the voters changed the Constitution and chose to allow the Commissioner of School & Public Lands to increase investment opportunities for the permanent school fund and retain the inflation percentage in the fund also known as the Consumer Price Index Adjustment or CPI.

Due to the global recession, the inflation rate for FY09 was -1.354%. As of June 30, 2008, the Permanent Fund was valued at \$154,696,731.25. The inflation rate applied to the principal balance results in an inflation adjustment of -\$2,094,852.31.

This is the first year since the constitutional amendment was passed that the CPI rate has been negative. Because the Constitution does not allow for principal to be decreased, School & Public Lands will carry forward the negative adjustment to offset any positive CPI adjustment in future years. There will be no principal balance adjustments to the Permanent Fund in February of 2010.

FY 09 TRUST INCOME & INTEREST FUNDS INVESTED

Interest and Income Fund	\$ 869,374.95
Common School	\$6,943,908.39
University and Endowed Institutions	\$ 349,378.37
Escheats	<u>\$ 361,359.04</u>
TOTAL	\$8,524,020.75

Permanent Funds Invested

Common School	\$135,058,532.58
Normal (BHSU & DSU) Schools	\$4,692,549.84
SDSU Experimental Station	\$1,380,141.36
Northern State University	\$2,549,115.88
Redfield Developmental Center	\$1,349,004.97
SD School for the Visually Handicapped	\$1,328,263.29
SD School for the Deaf	\$1,548,224.48
SD School of Mines and Technology	\$1,951,357.35
South Dakota State University	\$7,127,374.11
Department of Corrections - Juvenile Programs	\$1,505,036.07
University of South Dakota	\$3,577,518.09
Human Services Center	\$420,174.92
Public Buildings	\$221,998.31
SD & SVH Administrative Fund	\$1,541,978.76
Escheats	<u>\$298,679.94</u>
TOTAL	\$164,549,949.95



Dollars Returned to Public Schools A-D

Aberdeen School District 06-1	\$360,587.80
Agar-Blunt-Onida School District 58-3	\$25,276.41
Alcester-Hudson School District 61-1	\$29,364.80
Andes Central School District 11-1	\$36,158.11
Arlington School District 38-1	\$27,036.94
Armour School District 21-1	\$14,121.49
Avon School District 04-1	\$17,778.53
Baltic School District 49-1	\$30,978.15
Belle Fourche School District 09-1	\$108,080.40
Bennett County School District 03-1	\$61,994.09
Beresford School District 61-2	\$49,355.22
Big Stone City School District 25-1	\$8,825.48
Bison School District 52-1	\$13,420.43
Bon Homme School District 04-2	\$49,006.75
Bonesteel-Fairfax School District 26-5	\$10,778.35
Bowdle School District 22-1	\$9,950.77
Brandon Valley School District 49-2	\$270,499.58
Bridgewater School District 43-6	\$13,854.49
Britton-Hecla School District 45-4	\$41,336.46
Brookings School District 05-1	\$222,518.99
Burke School District 26-2	\$16,428.88
Canistota School District 43-1	\$18,555.67
Canton School District 41-1	\$84,096.71
Carthage School District 48-2	\$1,753.65
Castlewood School District 28-1	\$22,262.27
Centerville School District 60-1	\$19,428.38
Chamberlain School District 07-1	\$98,124.23
Chester Area School District 39-1	\$26,871.09
Clark School District 12-2	\$32,378.81
Colman-Egan School District 50-5	\$23,579.69
Colome School District 59-1	\$12,871.53
Conde School District 56-1	\$7,864.11
Corsica School District 21-2	\$20,419.49
Custer School District 16-1	\$84,762.07
Dakota Valley School District 61-8	\$78,687.15
De Smet School District 38-2	\$20,772.07
Dell Rapids School District 49-3	\$91,372.67
Deubrook Area School District 05-6	\$30,781.91
Deuel School District 19-4	\$46,884.56
Doland School District 56-2	\$16,602.96
Douglas School District 51-1	\$188,170.47
Dupree School District 64-2	\$21,745.60

Dollars Returned to Public Schools E-H

Eagle Butte 20-1	\$119,104.55
Edgemont 23-1	\$10,443.33
Edmunds Central 22-5	\$11,971.90
Elk Mountain 16-2	\$3,323.64
Elk Point-Jefferson 61-7	\$59,364.34
Elkton 05-3	\$19,767.43
Emery 30-2	\$13,923.56
Estelline 28-2	\$22,221.90
Ethan 17-1	\$15,001.14
Eureka 44-1	\$13,522.38
Faith 46-2	\$14,952.86
Faulkton Area 24-3	\$28,098.86
Flandreau 50-3	\$73,885.80
Florence 14-1	\$14,595.77
Frederick Area 06-2	\$16,335.40
Freeman 33-1	\$38,027.57
Garretson 49-4	\$43,653.04
Gayville-Volin 63-1	\$19,043.24
Gettysburg 53-1	\$18,513.36
Grant-Deuel 25-3	\$16,203.31
Greater Hoyt 61-4	\$4,348.11
Greater Scott 61-5	\$1,465.22
Gregory 26-4	\$30,125.09
Groton Area 06-6	\$52,688.45
Haakon 27-1	\$20,238.96
Hamlin 28-3	\$56,659.96
Hanson 30-1	\$31,771.48
Harding County 31-1	\$19,554.02
Harrisburg 41-2	\$172,911.68
Harrold 32-1	\$9,261.88
Henry 14-2	\$8,856.59
Herreid 10-1	\$9,787.25
Hill City 51-2	\$36,712.49
Hitchcock-Tulare 56-6	\$21,806.05
Hot Springs 23-2	\$67,504.96
Hoven 53-2	\$12,664.49
Howard 48-3	\$29,583.53
Hurley 60-2	\$14,589.72
Huron 02-2	\$185,341.57
Hyde 34-1	\$20,058.20

Dollars Returned to Public Schools I-R

Ipswich Public School District 22-6	\$37,447.48
Irene School District 63-2	\$26,927.98
Iroquois School District 02-3	\$14,680.79
Isabel School District 20-2	\$6,127.47
Jones County School District 37-3	\$12,353.57
Kadoka School District 35-1	\$56,650.13
Kimball School District 07-2	\$23,057.14
Lake Preston School District 38-3	\$15,389.18
Langford School District 45-2	\$17,139.21
Lead-Deadwood School District 40-1	\$70,251.65
Lemmon School District 52-2	\$23,097.51
Lennox School District 41-4	\$82,778.41
Leola School District 44-2	\$22,552.80
Lyman School District 42-1	\$57,543.23
Madison Central School District 39-2	\$105,189.53
Marion School District 60-3	\$19,903.22
McCook Central School District 43-7	\$36,936.13
McIntosh School District 15-1	\$9,647.58
McLaughlin School District 15-2	\$49,597.88
Meade School District 46-1	\$220,829.81
Menno School District 33-2	\$22,949.14
Milbank School District 25-4	\$83,221.01
Miller Area School District 29-3	\$41,962.75
Mitchell School District 17-2	\$227,627.31
Mobridge School District 62-3	\$49,240.71
Montrose School District 43-2	\$17,608.08
Mount Vernon School District 17-3	\$17,181.27
New Underwood School District 51-3	\$18,225.25
Newell School District 09-2	\$30,279.26
Northwestern Area School District 56-7	\$23,087.76
Oelrichs School District 23-3	\$2,454.63
Oldham-Ramona School District 39-5	\$12,230.75
Parker School District 60-4	\$29,856.32
Parkston School District 33-3	\$48,249.68
Pierre School District 32-2	\$219,121.69
Plankinton School District 01-1	\$16,071.54
Platte Geddes School District 11-5	\$46,267.80
Pollock School District 10-2	\$4,432.48
Rapid City Area School District 51-4	\$1,162,547.36
Redfield School District 56-4	\$48,160.71
Rosholt School District 54-4	\$14,885.89
Roslyn School District 18-2	\$7,273.87
Rutland School District 39-4	\$9,508.16

Dollars Returned to Public Schools S-Z

Sanborn Central 55-5	\$18,964.50
Scotland 04-3	\$24,912.01
Selby 62-5	\$19,608.83
Shannon County 65-1	\$280,974.83
Sioux Falls 49-5	\$1,815,812.47
Sioux Valley 05-5	\$47,894.68
Sisseton 54-2	\$128,080.01
Smee 15-3	\$12,480.26
South Shore 14-3	\$8,149.56
Spearfish 40-2	\$161,082.27
Stanley County 57-1	\$41,157.22
Stickney 01-2	\$10,890.61
Summit 54-6	\$10,302.06
Tea Area 41-5	\$85,563.22
Timber Lake 20-3	\$17,898.13
Todd County 66-1	\$199,410.76
Tripp-Delmont 33-5	\$19,585.94
Tri-Valley 49-6	\$78,390.17
Vermillion 13-1	\$108,905.97
Viborg 60-5	\$20,343.41
Wagner 11-4	\$75,852.29
Wall 51-5	\$20,794.64
Warner 06-5	\$19,884.69
Watertown 14-4	\$334,338.79
Waubay 18-3	\$21,872.37
Waverly 14-5	\$8,487.24
Webster 18-4	\$38,668.59
Wessington Springs 36-2	\$22,614.37
West Central 49-7	\$98,756.47
White Lake 01-3	\$12,476.96
White River 47-1	\$27,944.96
Willow Lake 12-3	\$17,981.38
Wilmot 54-7	\$19,298.23
Winner 59-2	\$65,909.67
Wolsey-Wessington 02-6	\$16,735.85
Wood 47-2	\$4,859.45
Woonsocket 55-4	\$15,487.58
Yankton 63-3	\$260,549.54

TOTAL

\$10,996,684.37

Dollars Returned to Universities

South Dakota State University

\$548,451.00

SDSU INVESTED INCOME	\$111,802.89
SDSU PAYMENT INTEREST	\$22.42
SDSU SURFACE LEASING	\$344,323.85
SDSU MINERALS INCOME	\$92,301.84

Dakota State University

\$173,360.00

DSU INTEREST ON INVESTMENTS	\$39,052.19
DSU SURFACE LEASING	\$103,538.76
DSU MINERALS INCOME	\$30,769.05

University of South Dakota

\$243,311.27

USD INVESTED INCOME	\$87,403.88
USD SURFACE LEASING	\$96,068.70
USD MINERALS INCOME	\$49,660.63
INTEREST PAYMENT	\$2,907.79
BALANCE OF FY '08 PAID IN FY '09	\$7,270.27

SD School of Mines & Technology

\$131,423.03

SCHOOL OF MINES INVESTED INCOME	\$53,167.72
SCHOOL OF MINES SURFACE LEASING	\$54,633.00
SCHOOL OF MINES MINERALS INCOME	\$23,079.25
BALANCE OF FY '08 PAID IN FY '09	\$543.06

Black Hills State University

\$173,360.00

BHSU INTEREST ON INVESTMENTS	\$39,052.23
BHSU SURFACE LEASING	\$103,538.72
BHSU MINERALS INCOME	\$30,769.05

Northern State University

\$183,393.00

NORTHERN INVESTED INCOME	\$45,087.23
NORTHERN SURFACE LEASING	\$107,532.53
NORTHERN MINERALS INCOME	\$30,773.24

TOTAL

\$1,453,298.30

Dollars Returned to Endowed Institutions

Juvenile Corrections

\$92,134.65

TRAINING SCHOOL INVESTED INCOME	\$41,358.05
TRAINING SCHOOL SURFACE LEASING	\$27,699.35
TRAINING SCHOOL MINERALS INCOME	\$23,077.25

SD & SVH Administrative Fund

\$42,676.96

SD & SVH INTEREST ON INVESTMENTS	\$42,676.96
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Redfield Developement Center

\$134,334.66

REDFIELD INVESTED INCOME	\$37,039.32
REDFIELD SURFACE LEASING	\$74,216.60
REDFIELD MINERALS INCOME	\$23,078.74

School for the Deaf

\$97,959.00

SCHOOL FOR THE DEAF INT. ON INVEST.	\$41,116.35
SCHOOL FOR THE DEAF SURFACE LEASING	\$33,763.43
SCHOOL FOR THE DEAF MINERALS INCOME	\$23,079.22

SDSU Experimental Station

\$75,287.74

EXPERIMENTAL STATION INT. ON INVEST.	\$33,463.56
EXPERIMENTAL STATION MINERALS INCOME	\$11,038.29
SURFACE LEASE	22,849.65
BALANCE OF '08 PAID IN '09	7,936.24

School for the Visually Handicapped

\$107,907.62

SCHOOL FOR THE BLIND INVESTED INCOME	\$25,804.14
SCHOOL FOR THE BLIND SURFACE LEASING	\$54,483.81
SCHOOL FOR THE BLIND MINERALS INCOME	\$14,424.05
BALANCE ABOVE 1/2 OF DISBURSMENT	13,195.62

TOTAL	\$550,300.63
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